

Phillips, Hager & North Investment Management Ltd.
Proxy Voting Guidelines

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Proxy Voting Guidelines

Public companies call upon holders of their equity securities to vote on a wide range of matters. In most cases these are put forward by management, however, shareholders can also make proposals.

These guidelines have been formulated with the following guiding principles in mind:

- Proxies will be voted in a manner that seeks to enhance long-term shareholder value.
- Proxies will be voted in a manner that is consistent with leading corporate governance practices.
- Management has important insights into the value creation process. Simply because management puts forward a proposal is not a reason to vote against it.

In formulating these guidelines, we have reviewed proxy-voting guidelines from many other sources, and have used these as a guide to current and emerging corporate governance issues, and the standards adopted to deal with them. Our guidelines have been adapted for effective application by Phillips, Hager & North in both Canadian and global contexts, and we believe that they are in line with current best practices.

These guidelines are not rigid policy positions. We will consider each matter on a case-by-case basis and may vote in a manner different from that contemplated by our general voting guidelines where we believe it is appropriate, given the circumstances.

In the event of a potential material conflict of interest with respect to proxies, the conflict will be reviewed and resolved in favour of our clients.

We may change our guidelines from time to time in response to governance practices, without providing notice of these changes. However, we commit to maintaining the most recent version of our proxy voting guidelines on our website www.phn.com.

Alternatively, you may contact us at 1-800-661-6141 to request a copy.

1. Board of Directors

The board represents shareholders and should place shareholder interests above all others. The board will engage the services of a management team to ensure the corporation's long-term success. The board's key functions are to approve direction of corporate strategy, supervise risk management, and evaluate the performance of the company and of management. Overall, the board is responsible for determining, implementing, and maintaining a culture of integrity and ethical behaviour.

1.1 Independence of the Board of Directors

Guideline

Ideally, the board should be composed of a substantial majority of independent directors.

An independent director shall be independent of management and free from any interest or relationship that could interfere with the director's ability to act in the best interests of the corporation and its shareholders. A director who is not independent will be considered to be independent three years after the termination of the relationship or interest that caused the directors independence to be compromised.

With regard to directors who are also major shareholders (defined as a person who controls 5% or more of the equity or voting rights of the company), independence will be assessed on a case-by-case basis. However, if these directors hold stock that has disproportionate voting rights, they will not be deemed to be independent.

Voting Policy

We will generally not support directors who are not independent, where the proposed board is composed of less than a two-thirds majority of independent directors.

We will generally support proposals that limit employees of the company sitting on the board to the CEO only.

1.2 Independence of the Chair

Guideline

It is a matter of good governance practice that an independent director be appointed to the position of chair. An independent chair is one of the primary mechanisms by which board independence is maintained.

Voting Policy

We will generally not support a non-independent director if they are also chair or will become chair upon becoming a director, unless an unrelated director is appointed as a lead director and an independent corporate governance committee exists.

We will generally not support the CEO of the company if they are also chair or will become chair upon becoming a director.

1.3 Board Size

Guideline

The number of directors on a board is important to board effectiveness. The board should be large enough to adequately perform its responsibilities without being so large that it becomes cumbersome. Boards should consist of between 5 and 16 directors; however, the appropriate number of directors will vary with the size and nature of the corporation.

Voting Policy

We will review, on a case-by-case basis, when the number of directors is outside this guideline.

1.4 Committees of the Board

Guideline

Committees have become accepted mechanisms for corporate governance. Corporations of a sufficient size should, at a minimum, count the following among the committees of the board:

- **Audit Committee:** The audit committee will be responsible for ensuring the accurate accounting and reporting of the company's financial performance, ensuring that adequate internal control measures exist, and overseeing the annual external audit of the corporation. Members should have relevant experience.
- **Corporate Governance Committee:** The corporate governance committee is responsible for the oversight of the governance of the corporation.
- **Compensation Committee:** This committee is responsible for the direction and oversight of the company's executive compensation program, and for regularly evaluating the performance of senior management.
- **Nominating Committee:** The nominating committee should identify the board's need for new or additional directors and skill sets, and then recruit, nominate, and

orientate new directors. The committee should also assess the need for certain skills on the board that may be lacking.

The chair and committee members should all be independent directors.

Voting Policy

We will not support non-independent board members who sit on, or chair, any of the above committees.

We will generally support proposals to prohibit CEO's of other listed companies from sitting on the compensation committee.

For small companies we will not support non-independent board members who sit on, or chair the audit committee. For the compensation, nominating and corporate governance committees a majority of the members and the chair of these committees should be independent.

We will not necessarily vote against the board for failing to establish any or all of the above committees, but will actively encourage the board to do so. We will support proposals to establish any or all of the above committees.

1.5 Cumulative Voting

Guideline

There are valid arguments for and against cumulative voting. It can ensure an independent voice on an unresponsive board, or it can allow a small group of shareholders to promote their own agenda.

Voting Policy

We will generally vote against cumulative voting proposals, unless there is a clear and demonstrated need for them.

1.6 Staggered Boards

Guideline

The annual election of all directors is seen as an effective way to ensure that shareholders can make changes in the composition or control of the board, especially during periods of deteriorating corporate or board performance. We believe that the annual election of all directors' best serves the interest of shareholders.

Voting Policy

We will not support a proposal for the introduction of staggered terms.

We will not necessarily vote against a slate of directors simply because the board uses staggered terms.

We will support a proposal to eliminate staggered terms, or to introduce annual election of directors.

1.7 Director Attendance

Guideline

Directors should be able to commit sufficient time and energy to their duties to carry them out in an effective manner. Attendance at board and committee meetings is not the only measure of a director's performance, but poor attendance makes it difficult for a director to carry out their responsibilities effectively.

Voting Policy

We will generally not support existing directors if they have attended less than 75% of the board and committee meetings in aggregate, unless there are extenuating circumstances.

1.8 Overboarding

Guideline

Serving as a director of a public company requires a significant commitment in time and effort. If a director sits on an excessive number of boards it can compromise their ability to serve effectively.

Voting Policy

We will review a directors other board commitments on a case-by-case basis, but will generally withhold votes from directors who sit on more than six boards, and in the case of current CEO's, more than two boards.

1.9 Audit Process

Guideline

The audit plays a vital role in the corporate governance process. Not only does it verify the financial performance of a company, but it also identifies deficiencies in the internal control mechanisms of the company.

The audit process should involve the establishment of an independent audit committee (see 1.4) and the appointment of an independent auditor by that committee. The auditor should report directly to the audit committee, and not to management.

Auditors and/or the audit partner should be rotated on a regular basis.

Voting Policy

We will generally support the choice of auditors recommended by the audit committee.

Where auditors are being changed for reasons other than routine rotation, we will review the reasons on a case-by-case basis.

We will review on a case-by-case basis where the auditor has limited or capped their liability as it relates to the performance of the audit. Where the limits placed on the auditor's liability are unreasonable, we will not support the choice of auditor.

1.10 Audit Fees

Guideline

The amount and composition of fees paid to an auditor can compromise an auditor's ability to act independently and perform an audit that is free from undue influence by management. Requiring that a substantial majority of the fees paid to the auditors be for audit and audit-related services will help to ensure auditor independence.

Voting Policy

We will generally support proposals that require the outside auditor to have no relationship with the company other than providing audit and audit-related services.

We will generally not support the choice of auditor if less than two-thirds of the total fees paid to the auditor over the previous year were for audit and audit-related services.

1.11 Director Liability and Indemnification

Guideline

We recognize that in order to build and maintain a qualified board it may be necessary for the company to provide directors with limitations on their liability and an indemnification policy. However these policies should be limited to the director acting honestly and in good faith, and putting the interests of the company first. If the director acts dishonestly and with intent, the indemnification should be considered void.

Voting Policy

We will generally support proposals to limit the liability of directors, and to indemnify directors against legal costs provided they have acted honestly and in good faith.

1.12 Term Limits for Directors

Guideline

In general, we do not favour term limits for directors, as they impose an arbitrary limit on directors' tenure regardless of a director's performance, and because they may foster a short-term view.

Voting Policy

In general, we will vote against proposals to introduce term limits for directors, but will review each proposal on a case-by-case basis.

1.13 Performance Evaluation of Directors and Board

Guideline

A board must evaluate its own performance, which presents a conflict of interest. We feel that the best way to deal with this conflict is for the board to adopt their own statement of principles and guidelines for their own conduct and performance. The board should prepare annual evaluations based on these principles and guidelines, and should include a summary of the evaluations with the annual proxy circular.

Voting Policy

We will support proposals to develop and institute performance evaluations for a board of directors, and to include a summary of the evaluations in the annual proxy circular.

1.14 Directors Proposed on a Single Ballot

Guideline

We would prefer that directors be proposed individually on the annual ballot. When directors are proposed on a single ballot it removes the shareholders ability to withhold votes for individual directors, and effect selective change to the composition of the board. Boards may use this as a means of protecting individual board members, or preventing certain board practices from being changed. It is a sign of board confidence in governance practices that they are willing to propose directors individually.

Voting Policy

We will support proposals that directors be proposed individually.

We will withhold votes for a board proposed on a single ballot if we feel that the independence of the board or that the board committees have been compromised in any way, or that the board's actions have not been in the shareholders best interests.

1.15 In-Camera Meetings

Guideline

In-camera board meetings of independent board members only give an opportunity for more candid discussions than at formal board meetings. These meetings will help to facilitate and enhance overall board independence. It is also recommended that after these meetings, the chair of the in-camera sessions should meet with the chief executive officer to advise him or her of the topics that were discussed.

Voting Policy

We will generally support proposals that would require regular in-camera board meetings of independent board members only.

1.16 Voting for Directors

Voting Policy

In general, we will vote for the directors nominated by management unless these guidelines indicate otherwise, or the long-term performance of the corporation or the directors has been unsatisfactory.

2. Management and Director Compensation

We believe that any compensation plan should attempt to align the long-term interests of shareholders with the interests of management and directors. The compensation plan should also be sufficiently generous to attract and retain the people and skill sets required to ensure the long-term success of the company. The compensation plan should be developed and maintained by the compensation committee (see 1.4).

2.1 Stock Option and Incentive Compensation Plans

Guideline

In general, these plans should reward good performance, and not reward poor performance. The cost of the plan, either to the shareholders or the company, should be related to the benefits derived from it. The plan should be disclosed to the shareholders in detail, and be approved by them.

In general we would like to see the use of stock options as a form of compensation reduced. Our preference is for stock ownership rather than stock options.

Voting Policy

We will review each compensation plan on a case-by-case basis.

We will generally support stock option plans that link the granting or vesting of options to specific performance targets.

We will generally support stock option plans where the underlying securities will be issued at market value or higher.

We will generally support plans that require that the stock or option be held for a period of three years or longer.

We will generally support plans where the stock options have a life of five years or less, and will generally not support plans that exceed five years. We will not support "evergreen" stock option plans.

We will not support plans or proposals that allow the repricing of stock options, or that reissue options with an exercise price higher than the current market price.

We will not support stock option plans that are 100% vested when granted.

We will not support stock option plan amendments if the total potential dilution exceeds 10%, or annual dilution exceeds 1%. Amendments where total potential dilution is

between 5% and 10% will be reviewed on a case-by-case basis. We will generally approve stock option plan amendments where total potential dilution is below 5%, and annual dilution is below 1%.

We will not support stock option plans that authorize allocation of 25% or more of the available options to any one individual.

We feel it is generally not appropriate for directors to participate in the stock option plan, and would prefer directors own stock outright in the company. As such, we will generally not support proposals for director participation in stock option plans. However, for small companies we will review director options on a case-by-case basis, and where a company demonstrates a need for directors options we will support such a plan.

We will review all change in control provisions in stock option plans on a case-by-case basis, but will generally not support provisions that allow for stock option holders to receive more for their options than shareholders would receive for their shares, or provisions that allow for the granting of options or bonuses to outside directors "in the event" of a change of control.

We will not support plans that give the board broad discretion in setting the terms and conditions of programs.

We will not support omnibus stock option plans. Shareholders should have the opportunity to consider and vote on the separate components of such plans.

We will not support stock option plans that allow for the “reloading” of exercised or lapsed options.

2.2 Expensing of Share Options

Guideline

While options may not be an expense to the corporation, they are an expense to the existing shareholders due to the dilution effects. As such, we believe that share options should be expensed in the financial statements of a corporation.

Voting Policy

We will support proposals that require the expensing of stock options in the financial statements of a corporation in accordance with GAAP.

2.3 Golden Parachutes

Guideline

We recognize that ‘golden parachutes’ are a valid means to provide executives with the personal financial security and professional objectivity that is required to act in the best interests of shareholders. However, in some cases these provisions can be excessive.

Voting Policy

We will review severance compensation packages on a case-by-case basis.

2.4 Employee Stock Purchase Plans

Guideline

The interests of shareholders and employees are aligned if employees have the opportunity to become shareholders at a reasonable price. Employee stock purchase plans are an effective way of facilitating this. In general we will support employee stock purchase plans that align employee interests with creating value for shareholders.

Voting Policy

We will generally support employee stock purchase plans with a purchase price of not less than 85% of market value, potential dilution of less than 10%, and an appropriate mandatory hold period.

2.5 Aggregate Dilution from all Stock-Based Compensation Plans

Guideline

There are many types of stock-based compensation plans, and some of these can dilute the holding of current shareholders. It is easy to focus on the dilution from stock option plans, but ignore the dilution from other types of stock-based plans. As such it is important to assess the dilution of these plans individually and in aggregate.

Voting Policy

We will generally vote against any individual stock based compensation plan that can contribute to total potential dilution from all plans exceeding 10%.

2.6 Director Compensation

Guideline

We believe that director compensation should be appropriate for the time and effort that directors spend executing their duties. We also believe that directors who personally own

a significant amount of the company's stock will be better motivated to act in the interests of all shareholders.

Voting Policy

We will review proposals regarding director compensation on a case-by-case basis. We will support proposals advocating a proportion of the directors' remuneration be in the form of common stock.

2.7 Director Retirement Benefits

Guideline

We believe that retirement benefits should be restricted to the employees of a corporation. A director's independence could be compromised if they were to receive retirement benefits from the corporation.

Voting Policy

We will vote against proposals for retirement benefits for directors, unless it can be clearly shown that they will not impair a director's independence.

2.8 Employee Loans

Guideline

Loans to senior management or the guaranteeing of loans for the purpose of exercising options should be avoided. These types of arrangements expose the company to the risk of not being able to recover the loan if the borrower is terminated.

Voting Policy

We will review all loans to senior management on a case-by-case basis, but will generally support loans that are reasonable in amount, are charged a market rate of interest, are secured against shares in the company or some other real asset, and are unforgivable.

2.9 Excessive Executive Compensation

Guideline

In recent years, we have seen some executive compensation packages reach excessive levels, with no relation to individual or corporate performance. We believe that executive compensation should be performance based, and that it should align the interests of executives with the long-term interests of shareholders. We would like to see performance criteria clearly disclosed and defined, and also a discussion of if and how those criteria are met. The performance criteria and the degree to which these have been met should be determined by the compensation committee.

Voting Policy

We will review executive compensation plans on a case-by-case basis but will generally support plans that are fair, and oppose those that are excessive. We will review on a case-by-case basis proposals to enhance compensation disclosure, but will generally support proposals that require disclosure of performance criteria and if those criteria were met.

2.10 Compensation Report

Guideline

The compensation report in the proxy circular is the primary means by which shareholders obtain information to assess the compensation practices of the company. This report should be clear, concise, and fully disclose all methods of compensation and performance measures. Furthermore, this report should present the information in a format that will allow all shareholders to easily determine total compensation for an individual.

Voting Policy

We will generally support proposals that will require full or enhanced disclosure of compensation for senior executives.

We will support proposals requiring an advisory vote by shareholders to approve the annual compensation report (i.e. “say-on-pay”).

3. Takeover Protection

The takeover protection measures that are available to boards and management can be a double-edged sword for the shareholder. They can be used to protect shareholder value by defending the company from hostile takeover bids that do not represent a fair value for the assets of the company. However, they can also be used to entrench a board and management who may ultimately undermine shareholder rights and shareholder value.

3.1 Shareholder Rights Plans (“Poison Pills”)

Guideline

There are two main purposes for a shareholders rights plan. Firstly, to ensure that all shareholders are treated equally, and secondly, to give the board time to consider other options. Many shareholder rights plans go well beyond these two aims and may be used to prevent bids that are, in fact, worthy of shareholder consideration.

The plan should allow a takeover offer to stand for no longer than 60 days before the board responds. This gives management and the board ample time to consider the bid, and assess alternatives.

In Canada, shareholder rights plans must be ratified by the shareholders at the first annual meeting following adoption of the plan. In the U.S., shareholder ratification is not required.

Voting Policy

We will review each plan on a case-by-case basis, but will generally not support plans that are not subject to shareholder approval at least every three years.

3.2 Other Takeover Protection Measures

Guideline

Other takeover protection measures may include, but are not limited to the following:

- Going private transactions
- Leveraged buyouts
- Lock-up arrangements
- Crown-jewel defences
- Greenmail

- Fair price amendments
- Re-incorporation

When considering any takeover protection measure, we would be more likely to support a proposal if:

- the measure protects the rights of all shareholders;
- the measure seeks to maximize shareholder value;
- sufficient time and information is made available to shareholders to make an informed decision;
- the measure will allow competing bids to be considered over a reasonable time;
- the measure is subject to shareholder approval; and
- the measure is adopted for a limited period.

Voting Policy

We will review each takeover protection measure on a case-by-case basis.

4. Shareholder Rights

Shareholder rights are an asset as they represent a share in the wealth of the corporation, and also allow the holder to influence the future course of the corporation. Shareholder rights, like any other asset, should be protected and maintained. This can be done by staying informed about the issues, exercising proxy-voting rights, and communicating directly with management and directors.

4.1 Confidential Voting

Guideline

As with other electoral systems, the voting of proxies should be confidential, thereby ensuring that the process is impartial and free from coercion.

Voting Policy

We will support proposals to introduce confidential voting.

4.2 Majority Voting

Guideline

Shareholders should have an effective ability to vote directors both on and off the board as this offers shareholders input into board composition. Plurality voting gives shareholders no such input. Ideally board members should be elected to the board using a majority vote system where shareholders have the option of voting “for” and “against” individual directors, and directors must receive a majority of votes “for” to be elected to the board.

Voting Policy

We will generally support proposals that call for the adoption of a majority vote system for the election of directors.

4.3 Dual-Class Stock

Guideline

Dual-class stock refers to unequal voting rights between classes of shares. This violates the principle of one share, one vote. This means that a minority of shareholders has the ability to make decisions that may not be in the interests of all shareholders, or may not be supported by the majority of shareholders.

Voting Policy

We will not support the creation or extension of a dual-class stock structure.

We will support proposals to eliminate dual-class stock structures.

4.4 Supermajority Approval

Guideline

We believe that supermajority requirements do have a legitimate purpose, but can be subject to abuse. They should not be used for votes regarding takeovers or control of a company, and the approval proportion should not be set too high. A two-thirds majority is most common, and anything above this would be considered unreasonable.

Voting Policy

We will review supermajority proposals on a case-by-case basis.

4.5 Linked Proposals

Guideline

Linked proposals are used to pass proposals that may not be approved if they were proposed individually.

Voting Policy

We will generally not support linked proposals.

4.6 Increase in Authorized Shares

Guideline

We recognize that directors may need the flexibility to issue stock to meet changing financial conditions. This may include a stock split, to support an acquisition or restructuring plan, to use in a stock option plan, or to implement an anti-takeover plan. The authorization of additional stock should be approved by shareholders, and should meet a specific business need.

Voting Policy

We will review proposals to increase the authorized shares on a case-by-case basis. We will not support proposals for unlimited authorized shares.

4.7 Disclosure of Voting Results

Guideline

We believe that shareholders have the right to know, not only that a proposal was passed or defeated, but also the number votes for, against and withheld. Additionally, all proposals should be cast by ballot rather than a show of hands, as this will ensure that all shareholders, whether present at the meeting or not, will be treated equally. In order to

maintain the integrity of the proxy voting process, it is recommended that vote results be subject to independent verification.

Voting Policy

We will support proposals to disclose the results of proxy voting, to eliminate the practice of voting by a show of hands, and to adopt independent verification of proxy voting.

4.8 Blank-cheque Preferred Shares

Guideline

There may be valid business reasons for the issuance of blank-cheque preferred shares, but we feel the potential for abuse outweighs the benefits. The authorization of these shares gives directors complete discretion over the conditions of the stock, and shareholders have no further power to determine how or when the shares will be allocated.

Voting Policy

We will generally not support the authorization of blank-cheque preferred shares.

4.9 Shareholder Meeting Quorum

Guideline

The quorum for shareholders' meetings should be high enough that individual shareholders or small groups of shareholders (for example the board or senior management) will not be able to act independently of other shareholders, but not so high as to make it difficult to achieve.

Voting Policy

We will generally support quorum amendment proposals that require a minimum of five shareholders representing 25% of outstanding shares to constitute a quorum.

4.10 Equity Issues

Guideline

Shareholders should exercise control over the issuance of shares, especially when that issuance will result in significant dilution of ownership. This allows shareholder input on major decisions that affect the long-term interests of shareholders and the company.

Voting Policy

We will review all private placement and issuance of equity proposals on a case-by-case basis, but will vote against any proposal that will cause excessive dilution without a valid business need.

4.11 Other Business

Guideline

We believe that the inclusion of an “other business” proposal on a proxy ballot gives the board broad discretion to act without specific shareholder approval.

Voting Policy

We will not support “other business” proposals.

4.12 Implementing Shareholder Wishes

Guideline

The board has a fiduciary responsibility to represent the interests of shareholders and to implement their wishes. When a resolution receives the support of a majority of shareholders, the board of directors should report back within a reasonable time, and not later than the next annual shareholders’ meeting, on the action taken or explain why no action has been taken.

Voting Policy

When the board fails to implement a proposal that has received a majority of shareholder support, and does not demonstrate a valid reason for this action, we will withhold votes for all board members who served on the board during the period in question.

4.13 Share Blocking

Guideline

Some countries allow the practice of Share Blocking, where shareholders are “blocked” or prevented from trading their position from the time the proxy votes are submitted, to the day after the shareholders meeting. This practice has implications for the management of the portfolios in which these securities are held. We believe that this practice is not in the interests of shareholders, and we would like to see it discontinued.

Voting Policy

If we feel that our ability to manage a portfolio will be compromised as a result of share blocking restrictions, we may choose not to vote certain individual proxies. This will be

assessed on a case-by-case basis considering the course of action that is in the client's best interests.

4.14 Income Trust Governance

Guideline

Unit holders of income trusts should enjoy the equivalent rights and protection as the shareholders of a corporation. The trust and associated entities should take steps to ensure that appropriate corporate governance practices are adopted to achieve this end.

Voting Policy

We will generally support proposals that enhance governance practices of the trust.

We will review on a case-by-case basis the governance practices of income trusts, and may withhold votes from trustees where they have failed to establish or protect the rights of unit holders.

5. Shareholder Proposals

5.1 General

Guideline

Shareholders should have the right to bring relevant proposals to the annual general meeting. We believe that these proposals should be included on the proxy ballot for consideration by all shareholders as long as they deal with appropriate issues and are not used to air personal grievances or to obtain publicity.

We also believe that proposals should generally refrain from specifying how corporations should achieve the desired objectives, although we will evaluate on a case-by-case basis.

Certain proposals may diminish long-term shareholder value by imposing unreasonable constraints on the board and management.

Voting Policy

We will review shareholder proposals on a case-by-case basis.

5.2 Environmental and Social Shareholder Proposals

Guideline

Environmental and social issues are increasingly acknowledged to be areas of real risk to the operations of a company. Proposals that address these issues should be assessed in terms of the risks they represent to the company, and whether that risk has been adequately disclosed to shareholders.

Voting Policy

We will review environmentally and socially related shareholders' proposals on a case-by-case basis.

Where proposals relate to enhanced disclosure in an area that represents a real risk to the corporation we will generally support it.

Where the proposal mandates a specific course of action, we will generally oppose it, although we will evaluate on a case-by-case basis.

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